

**FRIENDSHIP TOWNSHIP
EMMET COUNTY, MICHIGAN**

Financial Statements
For the Year Ended
March 31, 2006

Prepared By:
Richard E. Mahlmeister, C.P.A., P.C.
580 South Nicolet, P.O.Box 996
Mackinaw City, MI 49701

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Friendship Township	County Emmet
Fiscal Year End March 31, 2006	Opinion Date September 2, 2006	Date Audit Report Submitted to State September 26, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES

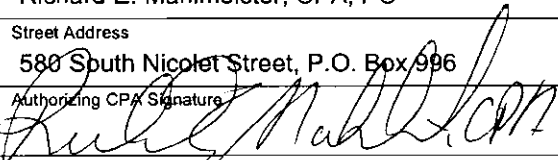
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Richard E. Mahlmeister, CPA, PC		Telephone Number 231-436-5223		
Street Address 580 South Nicolet Street, P.O. Box 996		City Mackinaw City	State MI	Zip 49701
Authorizing CPA Signature 		Printed Name Richard E. Mahlmeister, CPA		License Number 17351

FRIENDSHIP TOWNSHIP

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INDEPENDENT AUDITOR'S REPORT

September 2, 2006

Township Board
Friendship Township
Emmet County, Michigan

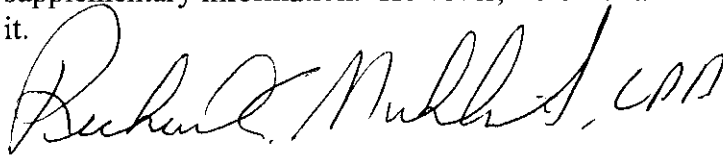
I have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of ***Friendship Township, Emmet County, Michigan***, as of and for the year ended March 31, 2006, which collectively comprise ***Friendship Township's*** basic financial statements as listed in the table of contents. These financial statements are the responsibility of ***Friendship Township's*** management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of ***Friendship Township, Emmet County, Michigan***, as of March 31, 2006, and the respective changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as of March 31, 2006.

The management's discussion and analysis and budgetary comparison information on pages 1 through 6 and 24 through 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

A handwritten signature in black ink, reading "Richard E. Mahlmeister, C.P.A.", written in a cursive style.

Richard E. Mahlmeister, C.P.A.

FRIENDSHIP TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2006. Please read it in conjunction with the financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights

Net assets at March 31, 2006 totaled \$715,006, representing an increase of \$91,696 from the previous fiscal year.

Governmental Fund Highlights

The governmental fund activities of the Township reported combined ending fund balances of \$369,380, which represents an increase of \$97,451 from the previous fiscal year.

Capital Assets and Long-term Debt

No capital assets were acquired during the year and the Township does not have any debt. Capital asset and debt activity is addressed further in a subsequent section of this letter.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: 1) management's discussion and analysis; 2) the basic financial statements; and 3) required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and/or business-type activities. There were no business-type activities for the fiscal year March 31, 2006.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

FRIENDSHIP TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the Township as a whole, using accounting methods used by private companies. The Statement of Net Assets includes all of the Township's assets and liabilities. The Statement of Activities records all of the current year's revenues and expenses, regardless of when received or paid.

The two Government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities. This is one method to measure our financial health or position.

Over time, increases or decreases in the Township's net assets are an indicator of whether financial position is improving or deteriorating.

To assess the overall health of the Township, you may also consider additional factors such as tax base changes, facility conditions, and personnel changes.

Most of the activities are reported as governmental activities. These would include the operations recorded in the General Fund, Road Fund, Recreation Fund and Capital Outlay Fund. Middle Village Park is presented, but is considered a component unit, not part of the primary government.

The comparison of net assets of governmental activities from year to year serves to measure a government's financial position:

	Friendship Township	
	Net Assets	
	March 31,	
	GOVERNMENTAL	
	ACTIVITIES	
Assets:	2006	2005
Current assets	\$373,388	\$274,533
Capital assets (net)	345,626	351,381
Total assets	<u>\$719,014</u>	<u>\$625,914</u>
Liabilities:		
Current liabilities	<u>\$4,008</u>	<u>\$2,604</u>
Net assets:		
Invested in capital assets	\$345,626	\$351,381
Unrestricted	<u>369,380</u>	<u>271,929</u>
Total Net Assets	<u>\$715,006</u>	<u>\$623,310</u>

FRIENDSHIP TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

The most significant portion of the Township's Net Assets is the investment in capital assets (e.g. land, buildings, equipment and vehicles), less any related debt, of which we have none, that is outstanding that the Township used to acquire or construct the asset. The Township has \$369,3809 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by policies regarding their use.

The following table summarizes the results of the changes in Net Assets of the Township:

Friendship Township		
Change in Net Assets		
March 31,		
GOVERNMENTAL		
ACTIVITIES		
	2006	2005
REVENUES:		
Program revenues:		
Charges for services	\$1,622	\$1,995
Operating grants and contributions	-	1,000
General revenues:		
Property taxes	171,880	70,411
State-shared revenues	65,431	65,641
Interest income	10,914	4,503
Other	6,240	1,304
Total Revenues	<u>256,087</u>	<u>144,854</u>
EXPENSES:		
Legislative	6,981	4,241
General government	59,214	65,089
Public safety	2,337	1,432
Public works	80,468	25,595
Recreation and culture	1,413	405
Other	8,223	4,398
Unallocated depreciation	5,755	4,940
Total Expenses	<u>164,391</u>	<u>106,100</u>
NET ASSETS:		
Increase in net assets	91,696	38,754
Beginning Net Assets	623,310	584,556
Ending Net Assets	<u>\$715,006</u>	<u>\$623,310</u>

FRIENDSHIP TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

Governmental Activities

The Township is able to report positive changes to its net asset balances. During the fiscal year, net assets increased by \$91,696.

Revenue increases, when compared to last fiscal year, totaling \$111,233 can be attributed to rising interest rates during the year, increased tax revenue due to rising taxable property values, and an additional voted mill that was collected for the first time this year. This additional mill was approved by the voters for four years and its use has been designated by the Township Board for road repairs.

Offsetting some of the increases in revenue, the Township spent \$66,403 for road repairs during the fiscal year. When combined with decreased expenses in areas such as our dust control program and our Planning Commission, overall expenses increased by \$58,291 over last year.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds, not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. They may also be created by the Township Board. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The Township has the following types of funds:

Governmental Funds

Most of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

The Township maintains four individual governmental funds; General Fund, Road Fund and Recreation Fund of which we consider major funds. We also have a Capital Outlay Fund, which is considered a non-major fund. The Township funds are financed primarily by both property tax revenue and state shared revenues.

Fiduciary Funds

The Township acts as a trustee or fiduciary and is responsible for insuring that the assets of these activities are collected and disbursed to the respective entities to which the funds belong. The Township maintains these funds and is responsible for insuring that the assets of these activities are spent for their intended purpose and at the direction of those individuals/organizations to whom the funds belongs. These activities do not appear in the Township's government-wide financial statements since the assets do not belong to the Township. The Township maintains a Tax Collection Fund in this category.

FRIENDSHIP TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental Fund Activities

The Township's fund activities remained consistent. The Township continued to provide the same services to its residents: administrative, assessing, elections, township hall maintenance, road maintenance, and tax collection. The General Fund increased its fund balance by \$68,685, bringing the fund balance to \$174,845, the Road Fund increased its fund balance by \$21,197, bringing the fund balance to \$83,870, the Recreation Fund increased its fund balance by \$6,456, bringing the fund balance to \$76,544, and the Capital Outlay Fund increased its fund balance by \$1,113, bringing the fund balance to \$34,121.

Capital Asset and Debt Administration

Capital Assets

At March 31, 2006, the Township's governmental activities had \$387,881 in net capital assets (land, buildings and equipment). There were no new capital assets purchased during the current year.

Long-Term Debt

No new debt was incurred during the year, nor is there any other long-term debt.

BUDGETARY HIGHLIGHTS

At year-end, there were several areas of significant decreases in actual compared to budgeted expenses. First, actual costs for contracted road repairs were \$34,515 less than anticipated and we were able to utilize \$24,082 from Road Commission allocations in place of budgeted General Fund dollars. Second, our Dust Control program costs were \$9,644 less than anticipated due in part to lower raw materials costs and in part to beneficial weather conditions. Third, our Planning Commission spent \$10,370 less than budgeted primarily because the assistance of our Township attorney was not necessary.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Township will be budgeting to spend a total of nearly \$430,000 for road repairs during the next four years. These funds will come almost entirely from the recently approved 4-year, 1-mill tax and will be bolstered by funds from Road Commission allocations and, when needed, from General Fund dollars.

The Township is studying proposals to upgrade the township hall in the areas of office space, document storage, electrical service, kitchen amenities for public and official use, internet service, etc. Funds to cover these improvements, if approved, would come from our Capital Outlay Fund and our Recreation Fund. These funds have been and continue to be built up with periodic, budgeted payments from our General Fund. We are also studying the cost and layout for an addition to the township cemetery. Funding for this project would come from our Capital Outlay Fund and from a recent bequest.

In the near-term, and aside from these projects, the Township expects financial aspects of governing to be generally the same as they were in the year ended March 31, 2006.

FRIENDSHIP TOWNSHIP

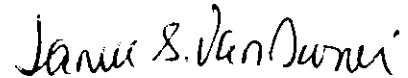
MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING TOWNSHIP MANAGEMENT

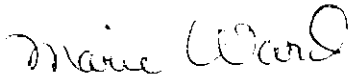
This financial report is designed to provide our citizens, creditors, investors, and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for revenues it receives. If you have any questions concerning this report, or need additional information, please contact any township official at 231.526.7220 (Friendship Township Supervisor).



Dale S. Scott
Friendship Township Supervisor



Janell S. Van Divner
Friendship Township Clerk



Marie A. Ward
Friendship Township Treasurer

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**FRIENDSHIP TOWNSHIP
STATEMENT OF NET ASSETS
MARCH 31, 2006**

	PRIMARY GOVERNMENT	COMPONENT UNIT
ASSETS	GOVERNMENTAL ACTIVITIES	MIDDLE VILLAGE PARK
Cash and cash equivalents	\$15,690	\$ -
Investments	334,358	7,167
Receivables:		
Property taxes	13,742	-
Due from other governmental units	9,598	-
Capital assets (Net of Accumulated Depreciation)	345,626	31,275
TOTAL ASSETS	\$719,014	\$38,442
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$2,248	\$ -
Accrued payroll taxes	954	-
Accrued pension	806	-
TOTAL LIABILITIES	4,008	-
NET ASSETS:		
Invested in capital assets	345,626	31,275
Unrestricted	369,380	7,167
TOTAL NET ASSETS	715,006	38,442
TOTAL LIABILITIES AND NET ASSETS	\$719,014	\$38,442

The accompanying notes are an integral part of these financial statements.

**FRIENDSHIP TOWNSHIP
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2006**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government			
Governmental activities			
Legislative	\$6,981	\$ -	\$ -
General government	59,214	1,622	-
Public safety	2,337	-	-
Public works	80,468	-	-
Recreation and culture	1,413	-	-
Other	8,223	-	-
Unallocated depreciation	5,755	-	-
Total governmental activities	164,391	1,622	-
General Revenues			
Property taxes			
State-shared revenues			
Unrestricted interest income			
Other			
Total general revenues			
Change in net assets			
Net assets, beginning of year			
Net assets, end of year			

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Assets		
	Primary Government	Component Unit Middle Village Park
Capital Grants and Contributions	TOTAL	TOTAL
\$ -	(\$6,981)	\$ -
-	(57,592)	-
-	(2,337)	-
-	(80,468)	-
-	(1,413)	(18,057)
-	(8,223)	-
-	(5,755)	(2,406)
-	(162,769)	(20,463)
	171,880	-
	65,431	-
	10,914	479
	6,240	11,027
	254,465	11,506
	91,696	(8,957)
	623,310	47,399
	\$715,006	\$38,442

FUND FINANCIAL STATEMENTS

FRIENDSHIP TOWNSHIP
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2006

ASSETS	GENERAL FUND	ROAD FUND	RECREATION FUND
Cash and cash equivalents	\$15,690	\$ -	\$ -
Investments	146,694	76,999	76,544
Taxes receivable	6,871	6,871	-
Due from other governmental units	9,598	-	-
TOTAL ASSETS	\$178,853	\$83,870	\$76,544
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$2,248	\$ -	\$ -
Accrued payroll taxes payable	954	-	-
Accrued pension payable	806	-	-
TOTAL LIABILITIES	4,008	-	-
FUND BALANCES			
Unreserved:			
Designated for:			
Subsequent years' expenditures	89,525	-	-
Unreserved, undesignated	85,320	83,870	76,544
TOTAL FUND BALANCES	174,845	83,870	76,544
TOTAL LIABILITIES AND FUND BALANCES	\$178,853	\$83,870	\$76,544

The accompanying notes are an integral part of these financial statements.

NON-MAJOR	
FUND	
CAPITAL	TOTAL
OUTLAY	GOVERNMENTAL
FUND	FUNDS
\$ -	\$15,690
34,121	334,358
-	13,742
-	9,598
\$34,121	\$373,388

\$ -	\$2,248
-	954
-	806
-	4,008

-	89,525
34,121	279,855
34,121	369,380
\$34,121	\$373,388

**FRIENDSHIP TOWNSHIP
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2006**

Reconciliation of fund balances on the balance sheets for governmental activities
to the statement of net assets

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$369,380
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources and,
therefore, are not reported in the funds.

Add: capital assets	387,881
Subtract: accumulated depreciation	(42,255)

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$715,006</u>
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The accompanying notes are an integral part of these financial statements.

FRIENDSHIP TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2006

	GENERAL FUND	ROAD FUND	RECREATION FUND
REVENUES:			
Taxes	\$88,757	\$83,123	\$ -
State shared revenues	65,431	-	-
Charges for services	1,622	-	-
Interest	5,784	1,638	2,379
Other revenue	1,095	-	5,145
TOTAL REVENUES	162,689	84,761	7,524
EXPENDITURES			
Current:			
Legislative	6,981	-	-
General government	59,214	-	-
Public safety	2,337	-	-
Public works	16,904	63,564	-
Recreation and culture	345	-	1,068
Other functions	8,223	-	-
TOTAL EXPENDITURES	94,004	63,564	1,068
NET CHANGES IN FUND BALANCES	68,685	21,197	6,456
FUND BALANCES, BEGINNING OF YEAR	106,160	62,673	70,088
FUND BALANCES, END OF YEAR	\$174,845	\$83,870	\$76,544

The accompanying notes are an integral part of these financial statements.

**NON-MAJOR
FUND**

**CAPITAL
OUTLAY
FUND**

**TOTAL
GOVERNMENTAL
FUNDS**

\$ -	\$171,880
-	65,431
-	1,622
1,113	10,914
-	6,240

1,113	256,087
-------	---------

-	6,981
-	59,214
-	2,337
-	80,468
-	1,413
-	8,223

-	158,636
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1,113	97,451
-------	--------

33,008	271,929
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\$34,121	\$369,380
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FRIENDSHIP TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2006

Reconciliation of statement of revenues, expenditures and changes in fund balances of
governmental funds to statement of activities

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$97,451

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, those costs
are allocated over their useful lives as annual depreciation expense in the statement
of activities.

Add: capital outlay capitalized during the current year

-

Subtract: depreciation expense

(5,755)

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$91,696

The accompanying notes are an integral part of these financial statements.

**FRIENDSHIP TOWNSHIP
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
MARCH 31, 2006**

<u>ASSETS</u>		<u>AGENCY FUND</u>
Cash		<u>\$ -</u>
<u>LIABILITIES</u>		
Due to other funds		<u>\$ -</u>
<u>TOTAL LIABILITIES</u>		<u>-</u>
<u>NET ASSETS</u>		
Fiduciary Net Assets		<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

FRIENDSHIP TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Friendship Township, Emmet County, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies.

Friendship Township adopted the governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements – Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 38, *Certain Financial Statement Note Disclosures* and applied those standards as of April 1, 2004. Under the provisions of GASB Statements Nos. 34 and 38, the focus of the Township's financial statements has shifted from a fund focus to a government-wide focus. Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989.

THE REPORTING ENTITY

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14, "The Financial Reporting Entity", the financial statements of the reporting entity include those of the Township and any component units. The basic criterion for including a governmental department, agency, institution, commission, public authority or other governmental organization in a governmental unit's financial report is the exercise of oversight responsibility over such agencies by the governmental unit's elected officials. The manifestations of such oversight responsibility are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. Based on these criteria, Middle Village Park is presented as a component unit.

Discretely Presented Component Unit

Middle Village Park – The Park was created by a joint agreement between Friendship Township and Readmond Township to acquire certain real property located in Readmond Township for the purpose of creating lakeshore recreational facilities. Each township provided a total of \$119,370 for land acquisition that was matched with \$716,219 of State of Michigan funding. The State of Michigan has retained a 75% interest in all minerals in and under such land. The property was deeded to Readmond Township with an off-deed agreement transferring a 50% ownership interest in the real estate to Friendship Township. A five-member committee manages the park. The committee consists of a representative each of Readmond Township, Friendship Township, the Little Traverse Bay Band of Odawa Indians, and two representatives of the Greater Good Hart Association.

(Continued)

FRIENDSHIP TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) **THE REPORTING ENTITY (CONTINUED)**

Discretely Presented Component Unit (Continued)

The committee is required to adopt an annual operating budget approved by Readmond Township, Friendship Township and the Tribal Council of the Little Traverse Bay Band of Odawa Indians. Under the operating agreement, funding is to be provided by the townships and the Indian band. Friendship Township performs administrative functions for the Park and is the custodian of its assets. Separate financial statements are not issued for Middle Village Park.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements.

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues are reported instead as general revenue.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria, based on percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds, for the determination of major funds.

FRIENDSHIP TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, state shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal year. All other revenue items are considered to be available when cash is received by the government.

FUND TYPES AND MAJOR FUNDS

Governmental Funds

The Township reports the following major funds:

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund. Financing is provided primarily by property taxes and state shared revenues.

Road Fund - This fund accounts for revenues and expenditures attributable to improvement of various roads located within the Township. Revenue is primarily obtained from property taxes for this purpose.

Recreation Fund - This fund is used to account for expenditures related to providing funding to recreational activities within the Township. Financing is provided primarily contributions by the General Fund and private individuals.

(Continued)

FRIENDSHIP TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND TYPES AND MAJOR FUNDS (CONTINUED)

The Township reports the following non-major fund:

Capital Outlay Fund – This fund is used to account for expenditures related to providing major capital improvements within the Township. Financing is provided primarily contributions by the General Fund and private individuals.

Fiduciary Funds

Trust and Agency Fund - The Tax Collection Fund is used to account for property taxes collected for the Township and as an agent for other governmental units. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits, cash in savings and money market accounts.

INVESTMENTS

Investments are stated at market value and consist of bank money market funds, which invest, solely in short-term fixed income securities of the U.S. Treasury and U.S. Agencies.

INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. All receivables are reported at their gross values. Interfund transfers reflect the use of unrestricted revenues collected in the General Fund used to finance programs accounted for in other funds in accordance with budgetary provisions.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

COMPENSATED ABSENCES AND POST-EMPLOYMENT BENEFITS

There is no accumulated vacation, sick leave or post-employment benefits to be recognized.

FRIENDSHIP TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Capital assets are generally defined by the government as assets with an initial individual cost of \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Expenditures for maintenance and repair are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Because the Township is considered a phase 3 government for GASB 34 implementation requirements, the Township is not required to report infrastructure retrospectively. Any future infrastructure additions will be capitalized, if any.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	15 – 40 years
Furniture and equipment	5 – 20 years
Park improvements	10 – 20 years

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources. Issuance costs are reported as debt service expenditures. The Township has no long-term obligations as of March 31, 2006.

FUND EQUITY

Reserved fund balances for governmental funds indicates that portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spendable resources. Designated fund balance indicates that portion of fund equity for which the Township has made tentative plans. Undesignated fund balance indicates that portion of fund equity, which is available for budgeting in future periods.

FRIENDSHIP TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds.

The Township follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the Township Clerk submits to the Township Board a proposed operating budget for the fiscal year commencing on April 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to March 31, the budget is legally enacted through passage of a resolution.
4. Budgeted amounts are as originally adopted, or as amended by the Township Board.
5. Appropriations expire at the end of the fiscal year.

The Township Board's budgetary procedures are in compliance with P.A 621 of 1978 (The Uniform Budgeting Act).

NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds were adopted to the activity level.

During the year the Township incurred expenditures which exceeded the amount appropriated as follows:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
ROAD			
Public Works	\$62,000	\$63,564	\$1,564

FRIENDSHIP TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 3: PROPERTY TAX

Property tax revenues for the year ended March 31, 2006, reflected in the accompanying financial statements include property taxes levied December 31, 2005. These taxes are due by February 15, 2006, and are added to the County tax rolls after February 28, 2006. The Township will receive 100% payment for the delinquent tax by June, 2006.

The taxable value of the Township totaled \$85,399,738, on which ad valorem taxes consisted of .9741 mills for the Township's operating purposes and .9741 mills for additional operating purposes to be used for roads, \$83,177 for operating purposes and \$83,123 for roads.

NOTE 4: CASH, CASH EQUIVALENTS, AND INVESTMENTS

Primary Government

The caption on the statements of net assets relating to cash and cash equivalents and investments of the primary government represent deposits in varying amounts as follows:

Cash and cash equivalents	\$15,690
Investments	334,358
	<hr/>
	\$350,048

Custodial Credit Risk – Deposits: At year-end the carrying amount of the Township's primary government deposits were classified as to risk as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$40,418	\$40,690
Uninsured – uncollateralized	309,630	309,631
	<hr/>	<hr/>
	\$350,048	\$350,321

For the year ended March 31, 2006, investments consist of bank money market funds which invest solely in short-term fixed income securities of the U.S. Treasury and U.S. Agencies and are not insured by the Federal Deposit Insurance Corporation (FDIC).

Component Unit

The captions on the balance sheet relating to investments of \$7,167 in the Component Unit column consist of bank money market funds which invest solely in short-term fixed income securities of the U.S. Treasury and U.S. Agencies, stated at cost, and are not insured by the FDIC

(Continued)

FRIENDSHIP TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 4: CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Investments are stated at market value. Investments held at a financial institution can be categorized according to three levels of risk. The GASB Statement No. 3 risk disclosures are as follows:

1. Insured or Registered, or Securities held by the Township or the Township's agent in the Township's name.
2. Uninsured and Unregistered, with Securities held by the Counterparty's Trust Department or its agent in the Township's name.
3. Uninsured and Unregistered, with Securities held by the Counterparty or the Counterparty's Trust Department or Agent, but not in the Township's name.

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated level are used as depositories. The Township may experience significant fluctuations in deposit balances through the year.

Investing is performed in accordance with investment policies complying with state statutes. The Township's deposits and investments are in accordance with statutory authority.

Statutory Authority

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

NOTE 5: INTERFUND BALANCES AND TRANSFERS

There were no interfund balances or operating transfers for the year ended March 31, 2006.

FRIENDSHIP TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 6: CAPITAL ASSETS

Primary Government

Capital asset activity of the primary government activities for the current year was as follows:

	Balance April 1, 2005	Additions	Deletions	Balance March 31, 2006
<u>Not being depreciated:</u>				
Land	\$240,677	\$ -	\$ -	\$240,677
<u>Being Depreciated:</u>				
Building and Improvements	113,494	-	-	113,494
Furniture and Equipment	33,710	-	-	33,710
Subtotal	387,881	-	-	387,881
Less accumulated depreciation	(36,500)	(5,755)	-	(42,255)
Total	\$351,381	\$36,440	\$ -	\$345,626

Depreciation was charged to the Township's functions as follows:

Unallocated \$5,577

Component Unit

Capital asset activity of the component unit – Middle Village Park government activities for the current year was as follows:

	Balance April 1, 2005	Additions	Deletions	Balance March 31, 2006
<u>Being depreciated:</u>				
Park improvements	\$36,087	\$ -	\$ -	\$36,087
Less accumulated depreciation	(2,406)	(2,406)	-	(4,812)
Total	\$33,681	(\$2,406)	\$ -	\$31,275

Depreciation was charged to the Component Unit's functions as follows:

Unallocated \$2,406

FRIENDSHIP TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

NOTE 7: PENSION PLAN

The Township provides pension benefits through a defined contribution plan covering to all elected and appointed officials, which is administered by the John Hancock Life Insurance Company. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Township Board, the Township contributes 7.5% of employees' gross earnings. In accordance with these requirements, the Township contributed \$3,173 for the year ended March 31, 2006. Fees and charges were \$193.

NOTE 8: RISK MANAGEMENT

Friendship Township participates in the Michigan Township Participating Plan for general liability, property loss, professional, public official errors and omissions liabilities. This plan is a self-insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan, through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of the Township. The Township pays an annual premium to the Michigan Participating Plan for its general insurance coverage and has no additional liability beyond the premiums made to this plan.

The plan has a maximum liability for property of \$212,000, general liability of \$2,000,000, wrongful acts of \$2,000,000, crime of \$10,000, automobile of \$2,000,000, inland marine liability of \$17,813 and bonding for public officials errors and omissions. Additionally, the Township has purchased commercial insurance for workman's compensation benefits.

Claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 9: COMMITMENTS

The Township is committed under contracts for road improvements in the approximate amount of \$178,000.

NOTE 10: CONTINGENCIES

The Township is contingently liable under an operating agreement with the City of Harbor Springs and another township for a portion of the costs of monitoring and remediation of environmental issues arising from the closure of a solid-waste landfill located in an adjacent township. The township incurred \$1,676 for its share for the fiscal year ended March 31, 2006.

REQUIRED SUPPLEMENTARY INFORMATION

**FRIENDSHIP TOWNSHIP
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2006**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes:				
Property tax	\$80,563	\$80,563	\$83,177	\$2,614
Property taxes - administrative fee	4,650	4,650	5,010	360
Penalties and interest	100	100	570	470
Total taxes	85,313	85,313	88,757	3,444
State shared revenues:				
State shared revenues	58,666	58,666	57,688	(978)
State shared revenues - METRO Act	-	-	2,867	2,867
Swampland and payment in lieu of tax	4,876	4,876	4,876	-
Total state shared revenues	63,542	63,542	65,431	1,889
Charges for services:				
Cemetery lots and burials	1,100	1,100	1,142	42
Land division fees	-	-	300	300
Rentals	-	-	180	180
Total charges for services	1,100	1,100	1,622	522
Interest	1,800	1,800	5,784	3,984
Other revenue	1,100	1,100	1,095	(5)
TOTAL REVENUES	152,855	152,855	162,689	9,834

**FRIENDSHIP TOWNSHIP
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2006**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
LEGISLATIVE				
Township board	\$7,232	\$7,312	\$6,981	\$331
GENERAL GOVERNMENT				
Supervisor	10,044	10,044	9,878	166
Assessor	14,800	14,845	14,845	-
Elections	500	984	984	-
Professional services	1,500	1,500	1,221	279
Board of Review	1,200	1,200	1,085	115
Clerk	10,044	10,044	9,728	316
Treasurer	13,044	13,595	12,891	704
Land division administration	1,500	1,500	1,422	78
Township property	9,192	9,192	6,060	3,132
Cemetery	2,532	2,532	1,100	1,432
TOTAL GENERAL GOVERNMENT	64,356	65,436	59,214	6,222
PUBLIC SAFETY				
Planning and zoning	12,707	12,707	2,337	10,370
PUBLIC WORKS				
Highways and streets	73,500	73,500	6,695	66,805
Street lighting	200	200	183	17
Sanitation	12,000	12,000	10,026	1,974
TOTAL PUBLIC WORKS	85,700	85,700	16,904	68,796
RECREATION AND CULTURE				
Library	405	405	345	60
OTHER FUNCTIONS				
Insurance and other benefits	8,750	8,750	8,223	527
Contingency	4,000	2,840	-	2,840
TOTAL OTHER FUNCTIONS	12,750	11,590	8,223	3,367
TOTAL EXPENDITURES	183,150	183,150	94,004	89,146
NET CHANGE IN FUND BALANCE	(30,295)	(30,295)	68,685	98,980
FUND BALANCE - BEGINNING OF YEAR	106,160	106,160	106,160	-
FUND BALANCE - END OF YEAR	\$75,865	\$75,865	\$174,845	\$98,980

**FRIENDSHIP TOWNSHIP
BUDGETARY COMPARISON SCHEDULE -
ROAD FUND
FOR THE YEAR ENDED MARCH 31, 2006**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Property tax	\$74,000	\$74,000	\$83,123	\$9,123
Interest income	500	500	1,638	1,138
TOTAL REVENUES	74,500	74,500	84,761	10,261
EXPENDITURES:				
Current:				
Public works	62,000	62,000	63,564	(1,564)
TOTAL EXPENDITURES	62,000	62,000	63,564	(1,564)
NET CHANGE IN FUND BALANCE	12,500	12,500	21,197	8,697
FUND BALANCE, BEGINNING OF YEAR	62,673	62,673	62,673	-
FUND BALANCE, END OF YEAR	\$75,173	\$75,173	\$83,870	\$8,697

**FRIENDSHIP TOWNSHIP
BUDGETARY COMPARISON SCHEDULE -
RECREATION FUND
FOR THE YEAR ENDED MARCH 31, 2006**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Interest income	\$500	\$500	\$2,379	\$1,879
Other - refunds	-	-	5,145	5,145
TOTAL REVENUES	500	500	7,524	7,024
EXPENDITURES:				
Current:				
Recreation and culture	8,400	9,453	1,068	8,385
TOTAL EXPENDITURES	8,400	9,453	1,068	8,385
NET CHANGE IN FUND BALANCE	(7,900)	(8,953)	6,456	15,409
FUND BALANCE, BEGINNING OF YEAR	70,088	70,088	70,088	-
FUND BALANCE, END OF YEAR	\$62,188	\$61,135	\$76,544	\$15,409

RICHARD E. MAHLMEISTER

CERTIFIED PUBLIC ACCOUNTANT, P.C.

Member:
American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants

September 2, 2006

Township Board
Friendship Township
Emmet County, Michigan

In planning and performing my audit of the financial statements of ***Friendship Township, Emmet County, Michigan***, for the year ended March 31, 2006, I considered the Township's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during my audit I became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and recommendations regarding those matters. This letter does not affect my report dated September 2, 2006 on the financial statements of ***Friendship Township***.

Thank you for the opportunity to serve ***Friendship Township***. I appreciate the assistance I received from the Supervisor, Clerk and Treasurer during my audit. Best wishes in the next year.

Sincerely,



Richard E. Mahlmeister, C.P.A.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended March 31, 2006, the Township incurred expenditures in certain budgetary funds, which exceeded the amount appropriated, as shown in the body of the financial statements.

I suggest that the Township Board, on a periodic basis, review appropriations as compared to actual expenditures and amend the budget as necessary to avoid incurring expenditures in excess of appropriations.